

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 ABF-01

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FM AMEMBASSY DACCA

TO SECSTATE WASHDC PRIORITY 460

INFO AMCONSUL

AMEMBASSY ISLAMABAD

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

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EO 11652: N/A

TAGS: EFIN, BG

SUBJ: BANGLADESH REVALUES

1. BANGLADESH BANK ISSUED FOLLOWING PRESS RELEASE APRIL 24, 1976:

BEGIN TEXT: FOLLOWING THE DEVALUTATION OF TAKA ON 17TH MAY, 1975,
THE TAKA-POUND STERLING RATE WAS REFIXED AT TAKA 30 EQUAL POUND

STERLING ONE. SINCE THEN THERE HAS BEEN ALMOST CONTINUING DEPRECIATION OF POUND STERLING VIS-A-VIS US DOLLAR, RESULTING IN AUTOMATIC DEPRECIATION OF TAKA ALSO IN RELATION TO US DOLLAR. THIS HAS CREATED AN ADVERSE IMPACT ON OUR INTERNATIONAL TRANSACTIONS. ON THE ONE HAND, SINCE THE PRICES OF OUR MAJOR EXPORTS ARE GENERALLY REALIZED IN POUND STERLING, THE CAPACITY OF EARNINGS FROM THESE EXPORTS TO BUY GOODS AND SERVICES FROM NON-STERLING SOURCES IS ERODING TO A SIGNIFICANT EXTENT WITH THE FALL IN THE VALUE OF POUND STERLING. ON THE OTHER, WITH THE BULK OF PAYMENTS FOR OUR IMPORTS

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BEING SETTLED IN US DOLLAR THE DEPRECIATION OF POUND STERLING VIS-

A-VIS US DOLLAR HAS RESULTED IN A MARKED INCREASE IN THE COST OF IMPORTS. AFTER MAKING A CAREFUL REVIEW OF THE ABOVE SITUATION, THE GOVERNMENT HAS DECIDED TO INTRODUCE A NEW EXCHANGE ARRANGEMENT WHICH, THROUGH ORDERLY EXCHANGE RATES ADJUSTMENTS, WILL PROMOTE A STABLE SYSTEM OF EXCHANGE RATES CONSISTENT WITH GOVERNMENT'S OBJECTIVE OF FOSTERING ORDERLY ECONOMIC GROWTH WITH REASONABLE PRICE STABILITY WITH DUE REGARD TO CIRUCUMSTANCES. UNDER THIS ARRANGEMENT BANGLADESH BANK WOULD MAKE SUITABLE ADJUSTMENTS FROM TIME TO TIME IN THE VALUE OF TAKA IN RELATION TO POUND STERLING, DEPENDING ON THE TRENDS IN THE EXCHANGE RATE OF POUND STERLING IN RELATION TO OTHER CURRENCIES IN MAJOR INTERNATION MARKETS AND KEEPTING IN VIEW THE ECONOMIC SITUATION IN BANGLADESH. THIS FLEXIBILITY IN THE EXCHANGE SYSTEM IS EXPECTED TO IMPART A GREATER MEASURE OF STABILITY TO OUR INTERNATIONAL TRANSACTIONS. THE GOVERNMENT HAS ISSUED NOTIFICATION NO. MF/EF/ERA 176 DATED 24TH APRIL, 1976 TO ENABLE BANGLADESH BANK TO AMKE ADJUSTMENTS IN THE EXCHANGE RATE OF TAKA ON THE ABOVE BASIS. IN PURSUANCE THEREOF BANGLADESH BANK HAS REFIXED TAKA-POUND RATE AT TKAA 28.10 EQUAL TO ONE POUND EFFECTIVE FROM 26TH APRIL, 1976. THE NEW BUYING AND SELLING RATES HAVE BEEN FIXED AT TAKA 27.50 AND TAKA 27.60 RESPECTIVELY AS FROM THE SAID DATE.
END TEXT.

2. ACCORDING TO BANGLADESH BANK EXECUTIVE DIRECTOR, AMINUL HUQ CHOWDHURY, THIS DECISION TAKEN WHOLLY INDEPENDENTLY OF RECENT GOI DECISION TO REMOVE EXPORT TAX ON JUTE GOODS. HOWEVER, CHOWDHURY NOTED THAT BANGLADESH JUTE INDUSTRIES CORPORATION MIGHT ADJUST EXPORT SALES PRICES OF SUCH GOODS IN LIGHT INDIAN ACTION AND CHANGED VALVE OF TAKA.

3. COMMENT. (A) SINCE DEVALUATION, THE FOLLAR-TAKA CROSS RATE HAD DECLINED 20 PERCENT FROM POST MAY 1975 DEVALUATION RATE OF ONE TAKA EQUALS 7.746 CENTS (US) TO 6.181 CENTS ON APRIL 23, 1976. THE REVALUATION AMOUNTS TO 6.8 PERCENT, AT THE "CENTRAL" RATE OF 28.10 OR 8.7 PERCENT AT THE CURRENT RATE (IMF RULES ALLOW SWINGS UP TO 2.25 PERCENT
ROUND THE CENTRAL RATE). ACCORDINGLY, THIS STILL LEAVES THE CROSS RATE FAR LOWER THAN IT WAS IMMEDIATELY AFTER DEVALUATION. (B) THE TAKA REMAINS PEGGED TO THE POUND, BUT THE DECISION TO AUTHORIZE THE BANGLADESH BANK TO MAKE -SUITABLE ADJUSTMENTS" IN THE TAKA-POUND EXCHANGE RATE WOULD PERMIT MORE FREQUENT, LIMITED OFFICIAL USE

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AND PRESUMABLY SMALL CHANGES IN THAT RATE, IF THE POUND CONTINUES TO SLIDE. (C) DECISION TO REVALUE EMINENTLY SENSIBLE. PERHAPS THREE QUARTERS OF THE EXPORT RECEIPTS FROM BANGLADESH'S MAIN FOREIGN EXCHANGE EARNERS, MANUFACTURED AND RAW JUTE WHICH TOGETHER ACCOUNT FOR OVER 80 PERCENT OF TOTAL EXPORT EARNINGS, ARE IN STERLING. NUMEROUS OTHER EXPORTS ITEMS, E.G. TEA, ARE ALSO SOLD FOR STERLING. ON THE OTHER HAND, PERHAPS 80 PERCENT OF BANGLADESH'S IMPORTS ARE PAID FOR WITH DOLLARS OR OTHER NON-STERLING CURRENCIES. GIVEN

THE PRESENT STRENGTH OF THE MARKET FOR RAW AND MANUFACTURED JUTE,
WE DOUBT SUCH SALES WILL BE ADVERSELY AFFECTED, WHILE IMPORTS FOR
DOLLARS WILL NOW BE CHEAPER.
BOSTER

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